



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

OCT 22 2004

Office of Audit Services
Region IX
50 United Nations Plaza, Rm. 171
San Francisco, CA 94102
(415) 437-8360 FAX (415) 437-8372

Report Number: A-09-04-00058

Mr. Joel Gilbertson
Commissioner
Alaska Department of Health and Social Services
Alaska Office Building, Room 204
P.O. Box 110601
Juneau, Alaska 99811-0601

Dear Mr. Gilbertson:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Alaska's Claim for Federal Matching Funds for Reimbursable Service Expenditures Claimed as Other Financial Participation for the Quarter Ended June 30, 2003." A copy of this report will be forwarded to the HHS action official named on page 2 for review and any action deemed necessary.

The action official will make final determination as to the actions taken on all matters reported. We request that you respond to the action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), Office of Inspector General reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-09-04-00058 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

R. J. Ruff, Jr., FAAME, CHE
Regional Administrator
Centers for Medicare & Medicaid Services
Blanchard Plaza Building
2201 Sixth Avenue, MS-40
Seattle, Washington 98121

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ALASKA'S CLAIM FOR
FEDERAL MATCHING FUNDS FOR
REIMBURSABLE SERVICE
EXPENDITURES CLAIMED AS OTHER
FINANCIAL PARTICIPATION FOR THE
QUARTER ENDED JUNE 30, 2003**



**OCTOBER 2004
A-09-04-00058**

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

Office of Evaluation and Inspections

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs. The OEI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

Office of Investigations

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

Title XIX of the Social Security Act authorizes the Federal Government to reimburse States for costs necessary to administer their Medicaid State plans. In general, the Federal Government reimburses, or matches, a State's Medicaid administrative costs at a rate of 50 percent.

Federal regulations require States to submit a statement of Medicaid expenditures to the Centers for Medicare & Medicaid Services (CMS) each quarter. The statement, known as Form CMS-64, is used by a State to report the actual expenditures for which it is entitled to reimbursement. Federal cost principles in Office of Management and Budget (OMB) Circular A-87 require that costs claimed under Federal awards be reasonable and necessary.

Alaska claimed \$10,725,524 as other financial participation on Form CMS-64 for the quarter ended June 30, 2003. Approximately \$4 million of the amount claimed was for expenditures incurred through reimbursable service agreements (reimbursable service expenditures).

OBJECTIVE

Our objective was to determine whether Alaska properly calculated its reimbursable service expenditures that were claimed as other financial participation on Form CMS-64 for the quarter ended June 30, 2003.

SUMMARY OF FINDING

Contrary to Federal cost principles, Alaska improperly calculated its reimbursable service expenditures that were claimed as other financial participation on Form CMS-64. As a result, Alaska improperly claimed Federal matching funds of \$346,217. Alaska did not discover the calculation error because it did not have adequate internal controls to ensure that the claim for Federal matching funds was accurate.

During the audit, we informed Alaska officials of the error; they indicated that a correction would be reflected on a future Form CMS-64.

RECOMMENDATIONS

We recommend that Alaska:

- refund to the Federal Government the Federal matching funds of \$346,217 that were improperly claimed as a result of the calculation error
- develop and implement adequate internal controls to ensure that claims for Federal matching funds are properly calculated

ALASKA COMMENTS

In its written comments on our draft report, Alaska stated that it has already taken corrective action by reporting an adjustment on Form CMS-64. Alaska did not comment on the recommendation to develop and implement internal controls to ensure that claims for Federal matching funds are properly calculated. Alaska's comments are summarized in the body of the report. The complete text of Alaska's comments is included as an appendix to this report.

INTRODUCTION

BACKGROUND

Title XIX of the Social Security Act authorizes the Federal Government to reimburse States for costs necessary to administer their Medicaid State plans. In general, the Federal Government reimburses, or matches, a State's Medicaid administrative costs at a rate of 50 percent.

Federal regulations require States to submit a statement of Medicaid expenditures to CMS each quarter. The statement, known as Form CMS-64, is used by a State to report the actual expenditures for which it is entitled to reimbursement.

In Alaska, the Department of Health and Social Services administers the Medicaid program. Within the Department, the Division of Medical Assistance is the designated entity to administer Alaska's Medicaid budget. Through contracts, or reimbursable service agreements, the Division of Medical Assistance purchases Medicaid services from other entities within the Department.

Alaska claimed \$10,725,524 as other financial participation on Form CMS-64 for the quarter ended June 30, 2003. Approximately \$4 million of the amount claimed was for reimbursable service expenditures.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Alaska properly calculated its reimbursable service expenditures that were claimed as other financial participation on Form CMS-64 for the quarter ended June 30, 2003.

Scope

We reviewed the mathematical accuracy of approximately \$4 million in reimbursable service expenditures claimed as other financial participation on Form CMS-64 for the quarter ended June 30, 2003.

We did not perform a detailed review of Alaska's internal controls. We limited our review to obtaining an understanding of Alaska's policies and procedures used to claim Medicaid administrative costs as other financial participation. We performed fieldwork during June and July 2004.

Methodology

To accomplish the audit objective, we reviewed:

- Federal cost principles and CMS guidance

- State agency procedures for claiming other financial participation costs
- mathematical accuracy of reimbursable service expenditures claimed

We performed the audit in accordance with generally accepted government auditing standards.

FINDING AND RECOMMENDATIONS

Contrary to Federal cost principles, Alaska improperly calculated its reimbursable service expenditures that were claimed as other financial participation on Form CMS-64. As a result, Alaska improperly claimed Federal matching funds of \$346,217. Alaska did not discover the calculation error because it did not have adequate internal controls to ensure that the claim for Federal matching funds was accurate.

FEDERAL COST PRINCIPLES FOR DETERMINING ALLOWABLE COSTS

For costs to be allowable under Federal awards, they must meet criteria in OMB Circular A-87, attachment A, part C. The costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

EXPENDITURES IMPROPERLY CALCULATED

Alaska improperly calculated reimbursable service expenditures that were claimed as other financial participation on Form CMS-64. As a result, Alaska improperly claimed Federal matching funds of \$346,217.

Alaska used incorrect data while accumulating the expenditures for its claim for Federal matching funds. Unlike other reimbursable service expenditures that were accumulated, the data included expenditures that were not calculated at the Federal matching rate. Consequently, Alaska's mathematical formula to calculate the Federal matching funds doubled the matching funds claimed. The error occurred because Alaska did not have adequate internal controls to ensure that the claim for Federal matching funds was properly calculated.

During the audit, we informed Alaska officials of the error; they indicated that a correction would be reflected on a future Form CMS-64.

RECOMMENDATIONS

We recommend that Alaska:

- refund to the Federal Government the Federal matching funds of \$346,217 that were improperly claimed as a result of the calculation error
- develop and implement adequate internal controls to ensure that claims for Federal matching funds are properly calculated

ALASKA COMMENTS

In its written comments on our draft report, Alaska stated that it has already taken corrective action by reporting an adjustment on Form CMS-64. Alaska did not comment on the recommendation to develop and implement internal controls to ensure that claims for Federal matching funds are properly calculated. The complete text of Alaska's comments is included as an appendix to this report.

APPENDIX

STATE OF ALASKA

DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

P.O. BOX 110601
JUNEAU, ALASKA 99811-0601
PHONE: (907) 465-3030
FAX: (907) 465-3068

September 23, 2004

Lori A. Ahlstrand
Regional Inspector General for Audit Services
Office of Inspector General, Region IX
Office of Audit Services
50 United Nations Plaza, Room 171
San Francisco, CA 94102

RE: Review of Alaska's Claim for Federal Matching Funds for Reimbursable Service
Expenditures Claimed as Other Financial Participation – Report A-09-04-00058

Dear Ms. Ahlstrand:

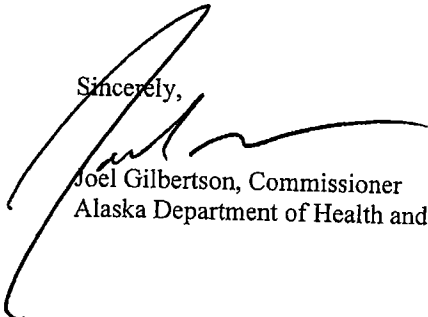
This is in response to a draft report dated August 13, 2004, titled *Review of Alaska's Claim for Federal Matching funds for Reimbursable Service Expenditures*. Department of Health and Social Services is the state Medicaid Agency.

The attached response addresses the findings and recommendations contained in your report. For any questions regarding the response to this report, please contact:

Michelle Grose, Finance Officer
Department of Health and Social Services
P.O. Box 110650
Juneau, Alaska 99811-650

Michelle may also be reached by phone at (907) 465-1690.

Sincerely,



Joel Gilbertson, Commissioner
Alaska Department of Health and Social Services

Department of Health and Social Services
Response to OIG Audit Report A-09-04-00058

September 23, 2004

Finding, Recommendations, and Responses:

EXPENDITURES IMPROPERLY CALCULATED

OIG Finding:

Alaska expenditures calculated reimbursable service expenditures that were claimed as other financial participation on Form CMS-64. As a result, Alaska improperly claimed Federal matching funds of \$346,217.

Alaska used incorrect data while accumulating the expenditures for its claim for Federal matching funds. Unlike other reimbursable service expenditures that were accumulated, the data included expenditures that were not calculated at the Federal matching rate. Consequently, Alaska's mathematical formula to calculate the federal matching funds doubled the matching funds claimed. The error occurred because Alaska did not have adequate internal controls to ensure that the Federal matching funds were properly calculated.

DHSS Response:

Alaska has already taken corrective action. A prior quarter's decreasing claim adjustment was reflected in the CMS 64 report for the overstated amount.

The previous CMS reviewer provided verbal guidance requesting the CMS report be submitted timely. Any corrections to the data should be adjusted on future reports to meet the reporting deadline. Alaska relied on the guidance provided by the former CMS reviewer and believed it was an acceptable practice to submit the report timely, review the data used, and prepared corrections in subsequent periods, if necessary.